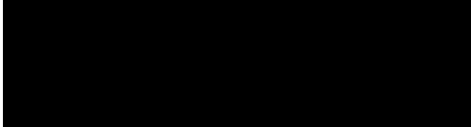
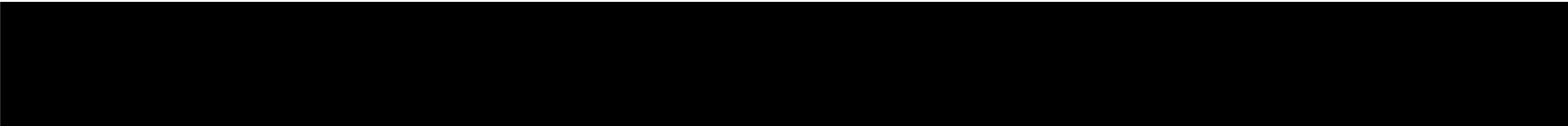
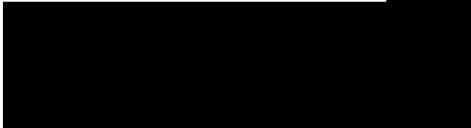
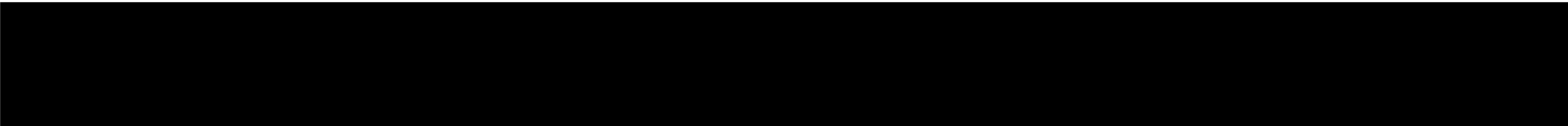


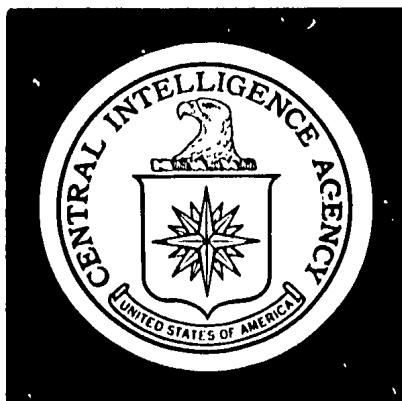
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DIRECTORATE OF
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Intelligence Memorandum

Cuba: Changes In Consumer Welfare Under Castro .

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

Cuba:
Changes In Consumer Welfare Under Castro

Introduction

Since 1961 the Cuban population has experienced not only independence of the United States, Communist brotherhood, and social progress but also an acute shortage of consumer goods. Virtually all such goods are now rationed, queuing is endemic, stores have little in inventory, and the black market is widespread.

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The consumer's position raises obvious questions about economic policy and management under Castro, though popular dissatisfaction does not appear to threaten the Castro regime's stability.

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Because of the profound social and economic changes under Castro, it is important to assess consumer welfare trends in broad terms. Private consumption expenditures remain the core of the matter. But the volume and quality of state-provided services, the demands that the regime has made on the people, and the inconveniences that it has created for them all influence consumers' feelings about how they have fared under Communism. Though important in appraising the Cuban scene, some of these matters are very difficult to pin down. This

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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memorandum assesses consumer welfare trends to the extent that scanty information permits. It also considers the prospects for improvement during the next several years.

Trends in Private Consumption

1. The central economic fact for Cuba's population since the early 1960s is that private consumption per capita has stagnated at about three-fourths of the level of the last two years before the revolution. In Latin America, probably only Haiti has done as poorly in improving its people's welfare during this period. In carrying out his revolution, Castro has, of course, been most concerned about improving the lower classes' welfare. But even for these groups, there has been little or no sustained advance in private consumption since the early 1960s.

2. Total private consumption held up fairly well in real terms during Castro's first few years in power. But it began falling in late 1961, reached a low point in 1962, and has been recovering only slowly and fitfully. Although total private consumption was lower in 1968-69 than in 1967, it remained well above the 1962 low point. But meanwhile the population has been growing by about 1-1/2% annually, so that -- as the following estimates show -- private consumption per capita (at 1957 prices)* since 1961 has fluctuated around 250 pesos compared with 335 pesos in 1957:

<u>Year</u>	<u>Pesos</u>	<u>Year</u>	<u>Pesos</u>
1957	335	1964	260
1958	320	1965	245
1959-60	N.A.	1966	245
1961	320	1967	255
1962	255	1968	245
1963	250	1969	Less than 245

* The official exchange rate of 1 peso per US dollar in 1957 probably was a reasonably good indicator of the peso's purchasing power. Per capita private consumption of 250 pesos (or \$250) at 1957 prices equals about \$325 at the 1969 price level.

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Changes in Income Distribution

3. Although private consumption per capita has suffered an overall decline since the revolution, most landless agricultural workers clearly are better off now and some urban workers in service occupations also probably have gained. Other groups, particularly the former propertied class, now have substantially lower living standards.

4. Castro has tried to improve the wage earner's position by maximizing employment and boosting wages. Employment rose much faster than gross national product (GNP) from 1957 to 1967. Average money wages have increased considerably because of rising wage rates and the movement of agricultural laborers into better paying jobs in industry and construction. By 1967 the average Cuban worker's wage was about 50% higher than 10 years before. Workers at the lowest wage levels -- especially agricultural laborers, the most poorly paid group -- apparently benefited most. Although farm workers declined from about 40% of the labor force in 1957 to 35% in 1967, their share of total wages rose from about 18% to 25%. Higher employment and higher wages together have almost doubled the total wage bill and raised the wage share of GNP from about 52% to 60%.

5. The Castro government sharply cut the property income of the wealthier classes in the early 1960s by nationalizing most of the economy. As a result, most rents, interest, and dividends soon accrued to the government. An important share of this income has been redistributed to the lower classes through enlarged expenditures on social services, social security, and other welfare activities.

6. Private consumption, furthermore, has become more evenly distributed than the spread of money incomes would imply, largely because of the rationing system's powerful leveling effect. Almost all goods are rationed, and most goods formerly purchased principally by upper income groups have virtually disappeared. This is particularly true of consumer durables, which are mostly imported and are a victim of Cuba's severe balance-of-payments problem. The government's housing policy,

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too, has furthered egalitarianism. New housing since the revolution has consisted almost entirely of low-cost units for working-class families, particularly in rural areas. Moreover, housing abandoned by refugees has been made available mostly to low-income families and students with scholarships.

Changes in the Private Consumption Pattern

7. In some respects, private consumption expenditures have changed substantially since the mid-1950s, when foodstuffs accounted for about 45% of the total, rent and utilities for 20%, clothing and footwear for 9%, consumer durables for 10%, and other goods and services for the remaining 16%. Although foodstuffs account for about the same share as before (at pre-revolution prices), high-calorie foods have become more important. Wheat flour consumption has increased 2-1/2 times since 1957, while consumption of starchy root vegetables probably has risen also. The consumption of animal products (except eggs and fish) and of citrus and other fruits has fallen below pre-revolution levels.

8. Domestic manufacture of consumer goods has increased, though there is much complaint about quality. Cuban industry meets nearly all requirements for clothing, shoes, tobacco products, soaps, cosmetics, and a few other items as well as most processed foods. Spending on consumer durables has sharply declined because imports of such goods were slashed from \$125 million in 1957 to only about \$15 million in 1967. Personal spending on services also has become less important. Some services that formerly were purchased now are provided free. Others attract fewer customers because their quality has deteriorated, particularly since all service enterprises were nationalized in the spring of 1968.

9. The growing stock of housing has enlarged the share of rents and utility expenses in total private consumption expenditure. Even so, most Cubans still are miserably housed. The government reported a few years ago that over half of all dwellings were considered unfit for human habitation. The situation probably has grown worse, because housing construction has not kept pace with population growth. About 25,000 new units are needed

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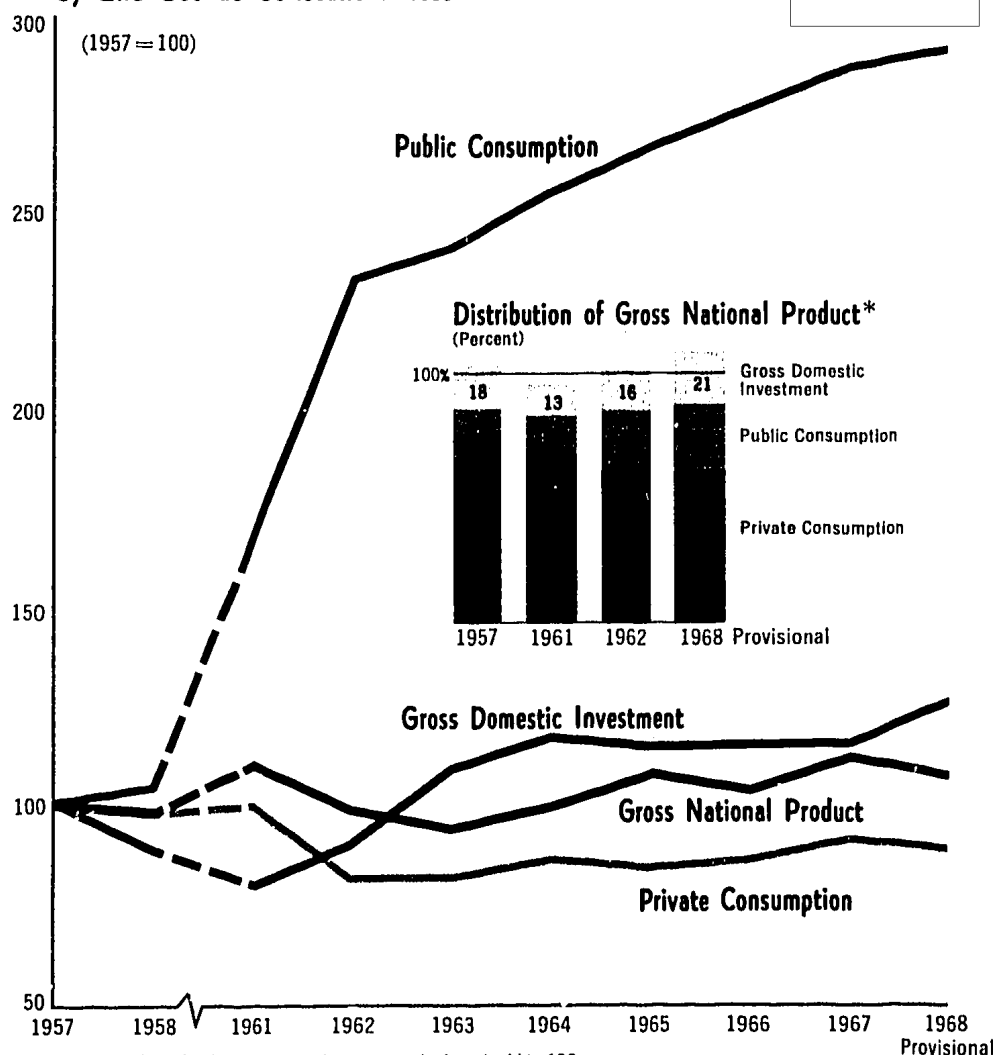
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annually just to match population increases,* but construction has averaged less than 20,000 units annually since the revolution.

Private Consumption Constraints

10. The decline in private consumption since the revolution basically reflects first, the economy's poor performance in spite of a rising investment rate and, second, the growing importance of public consumption. GNP has fluctuated around a trend that shows very slow growth (see the chart and the table). The economy's best year since the

**Cuba: Estimated Growth of Gross National Product
by End Use at Constant Prices**



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* If the emigration of over 50,000 persons annually were to end, at least 35,000 new units would be needed each year to maintain housing standards.

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Estimated Gross National Expenditure and Product at Constant Prices, by Major Expenditure Category

	Million 1957 Pesos									
	1957	1958	1961	1962	1963	1964	1965	1966	1967	1968 Provisional
Private consumption	2,100	2,060	2,100	1,710	1,725	1,830	1,755	1,800	1,930	1,870
Public consumption	275	285	450	640	660	700	735	760	790	800
Gross investment	500	440	400	450	550	590	575	580	580	635
Gross national expenditure	2,875	2,785	2,950	2,800	2,935	3,120	3,065	3,140	3,300	3,305
Plus: exports	820	840	835	705	500	585	715	595	755	645
Less: imports	895	885	690	725	795	905	770	810	880	925
Gross national product	2,800	2,740	3,095	2,780	2,640	2,800	3,010	2,925	3,175	3,025

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revolution was 1967, but even then real GNP was only about 13% higher than in 1957. Castro's sorry economic record reflects mainly weaknesses in agriculture; total agricultural output in 1967 remained below that of a decade earlier.

11. Although Communist aid has allowed a somewhat faster and more stable growth in the supply of goods and services than the GNP would indicate, emphasis on public consumption and investment has reduced private consumption. In the early post-revolution years, Castro apparently thought he could simultaneously accelerate economic development, nationalize the economy, redistribute income, and increase private consumption. By 1962, however, as production faltered and shortages grew more acute, some choices clearly had to be made. The regime chose to postpone improving living conditions and to push ahead with other plans.

12. The new policy promoted public consumption more than any other component of national expenditure. Public spending on education, public health, the armed forces, general administration, and other government functions was nearly three times as large in real terms in 1968 as in 1957. Public consumption swelled from 10% to about 26% of GNP, while private consumption dropped from about 75% to 62%. Expansion of public consumption has cut private consumption partly by diverting resources to uses that are traditionally government-administered and partly by absorbing activities that previously were private. Virtually all medical services, for example, are now provided free through the Ministry of Public Health, and the government finances many schools that previously were operated privately.

13. The increase in the investment rate has been moderate and has been financed largely by foreign capital rather than by the Cuban consumer. Gross domestic investment rose by about one-fourth in real terms from 1957 to 1968 and equaled about 21% of GNP at the end of the period compared with 18% at the beginning. Net foreign investment, however, rose from about 2-1/2% of GNP in 1957 to an average of 6-1/2% in 1967-68. Although the investment rate is not particularly high for a Communist country, it is high by Latin American standards. These expenditures nevertheless failed to produce satisfactory growth rates, chiefly because of

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centralized planning and management and the US trade embargo. The economic system has displayed the familiar faults of unwise and inconsistent resource allocation, weak work incentives, and unskilled, cumbersome administration. By denying Cuba access to normal sources for spare parts, the United States has both hampered productive efficiency and forced replacement of machinery and equipment at far above normal rates.

Imbalance in the Consumer Market

14. During most of the 1960s, Cuban consumers contended with the various symptoms of repressed inflation as well as with stagnating living standards. Since total personal income rose sharply while the supply of consumer goods and services was declining, severe shortages became the economy's most conspicuous feature. The government responded by rationing almost all basic consumer goods. Rationing was first introduced for a few food items in 1961 and was extended to most basic foodstuffs in the spring of 1962. Since then, the authorities have started rationing other items and also have reduced some ration allotments.

15. The ration for some foodstuffs is small compared with per capita consumption before Castro, as the following tabulation shows:

	Consumption Per Capita in 1957	Ration Allotments Per Capita in 1967
Rice (pounds per month)	10.20	3.00
Beans (pounds per month)	2.45	1.50
Fats (pounds per month)	2.90	2.00
Beef (pounds per week)	2.20	0.75
Fresh milk (liters per day)	0.45	0.20

Moreover, supplies available through the official distribution system frequently fall below the

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ration allotments. Food rations are supplemented in several ways.* Most Cubans buy sizable amounts of black market food and eat some meals in dining halls at school or work and in restaurants. Foodstuffs could be purchased directly from private farmers until 1967, and some foods (notably bread and eggs) were not rationed until 1968. Although bread and eggs are now rationed, allotments are considerably higher than pre-revolution consumption.

16. The Castro government has substantially increased prices for most consumer goods to absorb some of the excess purchasing power hanging over the market. By 1967, prices for goods distributed through official channels averaged 40% higher than in 1957. This rise was far too small to balance supply and demand, and an extensive black market has continued to operate. There is evidence that 30% to 40% of total private consumption expenditure is channeled through this market. Less than 10% of the total supply of consumer goods probably is distributed through the black market, however, because prices average about five times higher than in the legal market. Foodstuffs are by far the most common black market item, but there is also considerable activity in clothing, household items, and spare parts for passenger automobiles.

Social Benefits Provided by the State

17. Although many Cubans may feel that Castro's increased spending on the armed forces and public administration has done little or nothing to improve their lives, the expansion of education, public health, and other social services unquestionably has contributed to their wellbeing, particularly that of the lowest income groups. Government expenditures for public health have grown more rapidly than any other component of public consumption. In 1968 the Ministry of Public Health's budget was approximately ten times the pre-revolution level. Some of the increase results from higher costs, but most of it reflects the government's takeover and expansion of medical services.

* in 1967 the average family's monthly food ration lasted only about 20 days, leaving an appreciable part of requirements to be obtained from other sources.

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The government has built numerous new hospitals and clinics, introduced a large preventive medicine program, and increased the training of doctors and nurses. The effectiveness of these efforts has been impaired, however, by a serious shortage of drugs and other medical supplies, by emigration of many older and more experienced doctors, and by the low quality of medical education since the revolution.

18. Education also has expanded greatly under Castro. Public education expenditures in 1966 (the last year for which data are available) totaled about 270 million pesos compared with about 75 million pesos in fiscal 1956/57. Although rising costs and nationalization of private schools (which enrolled 10% to 15% of the students before the revolution) account for some of the increase, Cuba's educational effort clearly is much larger now than before. The number of students enrolled in elementary schools grew from about 800,000 in 1958/59 to 1.5 million a decade later. Secondary school enrollment grew from about 80,000 to 254,000 during the same period, and the number of university students went up from 25,000 to 35,000. Moreover, the Castro government has undertaken a broad program of adult education designed to give everyone the equivalent of at least a sixth grade education and to increase the supply of vocational skills. This program peaked in 1964/65, when some 800,000 adults were enrolled. In 1968/69, about 450,000 persons were still participating.

19. The education program has encountered serious problems, however. Growth has been too rapid for adequate training of the many new teachers required. The shortage has been compounded by the emigration of many experienced teachers. Although a major training program was undertaken, most Cuban teachers are poorly qualified and educational standards have suffered. The impact of the education program also has been limited by a high drop-out rate. Virtually every child now enters elementary school, but comparatively few graduate, as the following data show:

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<u>Fiscal Year</u>	<u>Thousand Students</u>	
	<u>Enrollment</u>	<u>Graduates</u>
1958/59	800	22
1962/63	1,207	34
1963/64	1,281	44
1964/65	1,324	58
1965/66	1,321	73
1966/67	1,354	66
1967/68	1,392	65
1968/69	1,461	N.A.

Other Aspects of Consumer Welfare

20. The Cuban revolution has affected the average Cuban in other, less agreeable ways. It has limited his leisure time, for example, and disrupted his family life. Workers have been under considerable pressure to perform "voluntary" overtime at their regular jobs and to help out in agriculture. The latter obligation may take an urban worker away from his regular job and his family for months at a time, although many people work in the fields only on weekends. While large numbers of people are off cutting sugarcane or helping to harvest other crops, those remaining behind are expected to work extra hours to compensate for the reduced work force. The Cuban worker also has been restricted in the ways he spends his leisure time. In an outburst of revolutionary and puritanical zeal in the spring of 1968, the Castro government closed all bars and nightclubs and outlawed gambling and cock fighting. To support the drive to produce 10 million tons of sugar during the 1970 harvest, the government postponed the Christmas and New Year celebrations until mid-1970.

21. Cuban family life has also been affected by efforts to increase employment of women. The government has reduced mothers' child care responsibilities -- most notably by establishing "Infant Circles." These are essentially day nurseries for children ranging in age from 45 days to six years. The Circles provide two meals per day (an important supplement to the family ration), the usual nursery programs of learning and play, and some rudimentary indoctrination in the socialist way of life. There

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are probably more than 200 such nurseries; in 1968 they cared for over 33,000 children.

22. The pressure for more work and less play should not be exaggerated, however. Certain leisure activities have been encouraged. Most sporting events, for instance, are now free. The average Cuban also has access to beach resorts and other vacation areas previously closed to him. The government has constructed new vacation facilities specifically for working class families. Moreover, travel is much more common than before. Interurban bus and rail passenger traffic now is probably three times the pre-Castro level. As to the pressure for extra work, it is not at all clear how much is actually done.

worker absenteeism is high and many Cubans habitually avoid working an eight-hour day. Even in the canefields, the midday siesta apparently is still observed despite the great sugar production drive. Finally, there is some evidence that much "voluntary" work in agriculture is performed with reasonably good will. At least some foreign observers have concluded that most Cubans adapt to this sort of thing fairly readily and do their stint in the fields cheerfully and perhaps even with some enjoyment.

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Prospects

23. Per capita private consumption probably will not improve much through 1975 because economic growth will continue to be slow, a shift in resources to consumption is unlikely, and the USSR is expected to press for reduced aid to Cuba. The economy will continue to be hampered by all of the factors that crippled its performance during the 1960s. These problems should abate somewhat over time, however, and labor productivity should gradually increase, in contrast to the last decade's decline. Because of the record sugar harvest in prospect for this year, Cuba probably will realize about a 10% increase in real GNP -- the highest rate in 11 years. In subsequent years, however, sugar production probably will initially fall below the 1970 level and, at best, only moderately exceed it by 1975. Economic growth during 1970-75 thus will depend heavily on expansion in other sectors, which probably will be slow during this period. GNP consequently is not

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expected to grow more than an average of 2% to 3% annually during the period through 1975 compared with the expected 1-1/2% increase in the labor force and population.

24. Reducing Cuba's foreign trade deficit probably will absorb a substantial share of the GNP increase. In 1969 the deficit approached \$500 million, 85% with the USSR. The 1970 trade protocol signed by Cuba and the USSR suggests that the two countries intend to move toward balanced trade as quickly as Cuban economic growth permits. Cuba's trade deficit with the Free World apparently was reduced during 1969 and probably will be held to fairly low levels in coming years.

Conclusions

25. Everything considered, most Cubans have little reason to be either particularly pleased or seriously dissatisfied with changes in their welfare under Castro. They can credit the government with greatly enlarging health and educational services and working for "fair shares" in consumption by rationing most basic foodstuffs and other necessities. Many people also have benefited from the redistribution of private income. Since the early 1960s, however, per capita consumption has stagnated at about three-fourths of the level prevailing just before the revolution. The diet has deteriorated. Almost all consumer items are constantly in short supply, and even the ration allotments are not always available. At the same time, the government has eliminated some amenities while calling for overtime without pay in the cause of building socialism. Perhaps some Cubans -- especially the young -- welcome or at least tolerate the continued call for sacrifice. But after a decade of the revolution, many others most likely have grown tired of the rhetoric and cynical about their economic prospects under Communism.

26. No appreciable advance in Cuban living conditions is expected during 1970-75. The current intense campaign to produce 10 million tons of sugar probably will bring the highest economic growth rate in many years, but sugar output probably will decline in the next year or two and only

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moderately exceed the 1970 level in 1975. Expansion of output in other sectors probably will be slow. A small general improvement in labor productivity nevertheless should bring average growth rates of 2% to 3% annually in GNP, compared with expected 1-1/2% gains in population if emigration continues at recent levels. Private consumption is unlikely to grow correspondingly, because some of the output gain probably will be offset by reduced Soviet aid. Moreover, there is little reason to suppose that Castro will shortsightedly shift resources from investment to private consumption or will cut back on social services or the armed forces.

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